State of Michigan
Department of Licensing and Regulatory Affairs

UNEMPLOYMENT INSURANCE AGENCY

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Fact Sheet

Solvency Tax

What is the Unemployment Insurance Solvency Tax?
If the Unemployment Insurance Agency (UIA) has to borrow money from the federal government to pay unemployment benefits, a solvency tax is triggered by a provision of the Michigan Employment Security (MES) Act to pay the interest on the federal loans.

Why is there a Solvency Tax at this time?
The law requires the UIA to impose the solvency tax if the following condition applies:

- The MES Act requires a solvency tax to be imposed if, on the preceding June 30, the balance in the Trust Fund is less than the total amount of unpaid federal loans. On June 30, 2010, the Trust Fund had nearly $3.9 billion in unpaid federal loans.

Who pays the Solvency Tax?

- Only a contributing employer, that had a negative balance in their experience account as of June 30th of the preceding calendar year. A "Negative Balance Employer" is one that paid less in state unemployment taxes than their former employees received in unemployment benefits.
- The negative balance employer must also have had to pay unemployment taxes for five consecutive years
- The **solvency tax will only apply to** those Michigan contributing employers with negative balances (about 15% of contributing employers).

When will the Solvency Tax become effective?

- The solvency tax will become effective January 1, 2011, absent federal action.

How is the Solvency Tax calculated?

- The solvency tax is 1/4 of the account building component (ABC) of the employer's contribution rate as determined under Section 19(a)(4) of MES Act.
- The maximum solvency tax rate is .75% (.0075), based on a 3% maximum ABC.
- The maximum tax increase per year would be $67.50 per employee, based on the annual taxable wage base per employee of $9,000.
- The solvency tax is in addition to an employer's calculated tax rate and will be displayed as a separate line item on Form UIA 1771, **Tax Rate Determination For Calendar Year 2011** (if applicable).

How can an employer avoid the Solvency Tax?

- By making a voluntary UI tax payment, until November 30, 2010, employers can potentially avoid paying the solvency tax. If the payment equals the employer's negative reserve balance, as of June 30th of the preceding calendar year, the employer would no longer have a negative reserve balance and be subject to the Solvency Tax. If an employer cannot make a voluntary payment by November 30, 2010, they can still make a voluntary payment within 30 days from the date of mailing of Form UIA 1771, **Tax Rate Determination For Calendar Year 2011**

Questions about the solvency tax? Please call the Employer Customer Relations Hotline @ 1-800-638-3994 or email TaxSupport@michigan.gov.

Michigan Department of Licensing and Regulatory Affairs
Unemployment Insurance Agency
Authority: UIA Director
Quantity: 215,000 Cost: $3010 (1.4¢/copy).
Paid for with federal funds.

Fact Sheet #121
May 2011